

EXHIBIT 7

DEFENSE CONTRACT AUDIT AGENCY
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219



OIS 850.3

5/22/2020

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL, DEFENSE
CRIMINAL INVESTIGATIVE SERVICE, HOUSTON RESIDENT
AGENCY, 1919 SMITH STREET, SUITE 10056, HOUSTON,
TEXAS, 77002

ATTENTION: SA Brandon Lupkey, DCIS (E-Mail: Brandon.Lupkey@DODIG.MIL)

SUBJECT: Subcontract Cost Estimate for DynCorp Subcontract MA-2011-06-0031-DAMCO

As requested, this memorandum summarizes our review of the documents provided to us during the investigation of DAMCO billing to DynCorp on Task Order (TO) 4 of LOGCAP IV. We have determined that an estimate of subcontract costs for the DynCorp subcontract MA-2011-06-0031-DAMCO (DAMCO), using the Diplomatic Freight Services (DFS) invoices voluntarily provided to DCIS, in the amount of \$31,318,757 is a reasonable, conservative estimate for the actual amount of costs incurred by DynCorp on the subcontract between Fiscal Year (FY) 2012 through FY 2014.

We do not accept the invoices created by the primary subcontractor DAMCO as reliable support for the subcontract cost because the invoices include cost line items (assessorial fees) that are not included in the subcontract with DynCorp. We also identified a significant number of invoices submitted to DynCorp that DynCorp did not accept and did not record in the general ledger.

We do not accept the DynCorp general ledger costs as reliable support for the subcontract cost because the general ledger costs are based on the DAMCO invoices. We accept that the DynCorp general ledger represents a maximum amount of costs claimed by DynCorp on public vouchers and reimbursed by the US Government. We identified \$63,963,318 in DAMCO subcontract costs that DynCorp recorded and billed from Fiscal Year (FY) 2012 through 2014.

We accept that the invoice information from Diplomatic Freight Services (DFS) is the original source documents of the DAMCO subcontract costs. During the course of the investigation, we learned that the actual freight movement was accomplished by DFS under subcontract to DAMCO. We have not found reason to question the reliability of the DFS invoice and airway bill information and we used this information as the basis of estimate for our subcontract cost estimate.

Based on these determinations, we calculated an estimate of incurred costs on the DAMCO subcontract of \$27,231,253. We estimated that DynCorp would incur an additional

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\$4,087,504 for indirect costs and fees on the DAMCO subcontract, for a total of \$31,318,757.
See the attached exhibit for additional details.

Please direct any future contact regarding this investigation to Matthew Prah, Investigative Support Auditor, at (281) 795-0731 or Joseph Fleming, Supervisory Auditor, at (571) 448-3450.

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Joseph P. Fleming
Supervisory Auditor, OIS

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Exhibit A: Subcontract Cost Estimate Calculations

Estimate Overbilled	
DFS Invoices (Freight Costs)	\$ 19,536,507.58
Damco Assessorial Fees	
Hazardous Fee	\$ 560,746.22
Pick Up / Delivery Fee	105,596.07
Haulage / Drayage	23,134.34
Airport Transfer Fee	1,096,047.92
Airport Handling Fee	1,096,047.92
Air FSC	2,922,794.45
Handling Fee	22,026.79
Oversize Surcharge	799,752.00
Imports Customs Clearance	445,250.00
Exports Customs Clearance	267,150.00
Document Preparation	356,200.00
Total Damco Assessorial Fees	<u>\$ 7,694,745.72</u>
Subtotal - Invoiced Freight Costs and Fees	<u>27,231,253.29</u>
DynCorp Estimated Indirect Costs and Fees	<u>4,087,504.05</u>
Total Estimated Cost	<u>31,318,757.35</u>
DynCorp GL Total Billed to US Government (Direct Subcontract Cost)	<u>\$ 63,963,318.26</u>
Difference	<u>\$ 32,644,560.91</u>

Notes for Exhibit A:

This calculation includes the following assumptions about the subcontract price adjustment and the assessorial fees included in the subcontract and how they are applied:

- We used the pricing information from the original subcontract for all DFS invoices from December 2011 through the end of May 2012, after that (on June 1, 2012 and after) "Amendment 2" of the subcontract and its pricing is effective for the calculations.
- All of the Assessorial Fees listed above were included in the subcontract. The selections here only limit when the assessorial fees are applied.
- For all Assessorial Fees where we could reasonably determine when a fee should be applied, such as hazardous cargo, pick up/delivery, and handling, we chose to limit the application of those fees to invoices where DFS incurred a cost for that activity. If we were unable to determine if DFS incurred such a cost or if the cost represents a service or

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activity performed by DAMCO, such as the customs clearance fees, we accepted the fees and calculated their charge as indicated on the subcontract.

- We chose to use the freight fee used by DFS in their invoices because it was higher than the DAMCO freight fee, which allows for DAMCO to recover costs incurred.